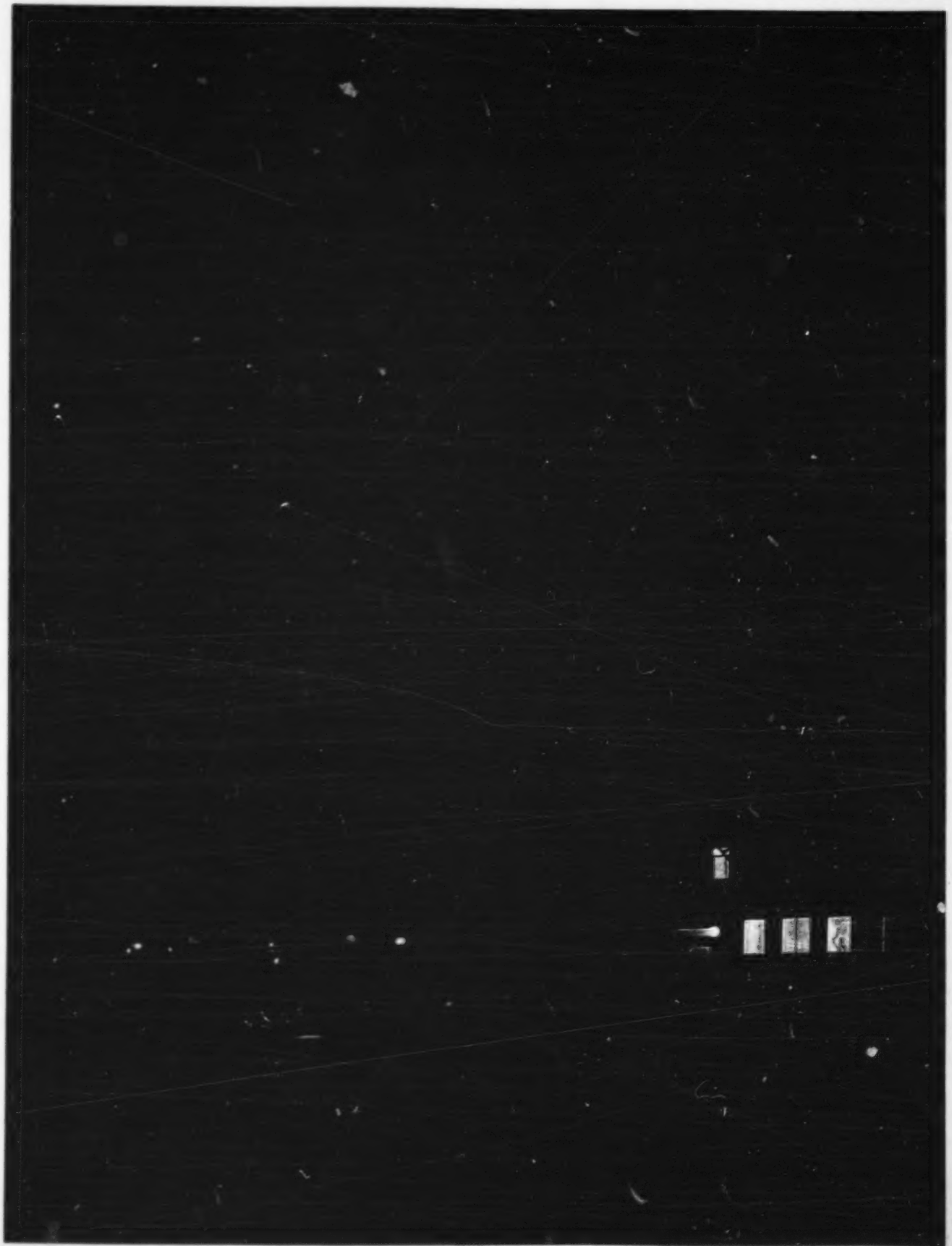


FINANCIAL HIGHLIGHTS

	1989	1988
Operating revenue	$ 65,699,333	$ 59,866,283
Operating expenses	46,642,480	41,518,144
Net earnings	5,537,686	5,274,769
Earnings per common share	1.51	1.42
Dividends declared per common share	0.83	0.80
Capital expenditures (net)	17,123,114	11,600,127
Gross fixed assets	$152,005,944	$136,023,249
Sales (kWh)	651,700,000	618,700,000
Number of customers	49,800	48,600
Number of common shareholders	1,701	1,742

COMMON SHARE QUARTERLY STATISTICS

1989	First	Second	Third	Fourth
Earnings per share	$0.59	0.43	0.45	0.04
Dividends declared per share	$0.20	0.21	0.21	0.21
Share price[1] — high	$13⅜	13¾	14	14½
— low	$ 13	13	13½	13½
Shares traded[2] (000's)	56.3	49.8	30.0	75.6

1988	First	Second	Third	Fourth
Earnings per share	$0.53	0.29	0.56	0.04
Dividends declared per share	$0.20	0.20	0.20	0.20
Share price[1] — high	$ 12	13	12⅝	13¼
— low	$11½	11⅝	12⅛	12
Shares traded[2] (000's)	38.5	133.6	25.8	56.6

[1]Prices quoted on the Toronto Stock Exchange.
[2]Combined volume of shares traded on the Toronto and Montreal stock exchanges.

ABOUT THE COMPANY

Maritime Electric Company, Limited is a Canadian investor-owned electric utility based in Prince Edward Island. It is regulated by the Public Utilities Commission of Prince Edward Island under the provisions of the Electric Power and Telephone Act. Established in 1918, the Company owns and operates a fully integrated system providing for the generation, transmission and distribution of electricity throughout the Island. Maritime Electric operates generating plants in Charlottetown and Borden, and has an equity interest in NB Power's unit in Dalhousie, New Brunswick. Its 4100 km distribution system and 500 km transmission system are linked to the mainland power grid by two submarine cables between the Island and the Province of New Brunswick. The Company maintains its executive and head administrative offices in Charlottetown with branch offices in Sherbrooke and Montague. Maritime Electric Company, Limited's shares are traded publicly on the Montreal and Toronto stock exchanges.

OVERVIEW 1989

Continued provincial economic growth contributed to Maritime Electric's electric energy sales growth of 5.3 percent in 1989. Colder winter weather, particularly in December, also contributed to the increase. However, the rate of growth of electricity sales on an annual basis has been declining since mid 1988. In December 1988, we had seen a 6.7 percent increase in sales over 1987, and we are now predicting a growth rate in 1990 of 4.3 percent over 1989.

Operating revenue for 1989 was $65.7 million compared to $59.9 million in 1988. Operating expenses for the corresponding periods were $46.6 million and $41.5 million. Net earnings applicable to Common Shares increased from $4.52 million in 1988 to $4.85 million in 1989. Earnings per common share increased from $1.42 to $1.51. The quarterly dividend on the Common Shares was increased from $0.20 to $0.21 on July 1, 1989.

Sales revenues above our expectations coupled with tight control of expenses caused us to collect $784,000 of revenue in excess of that required to cover our expenses and earn the allowed rate of 13.75 percent on average common equity. This excess revenue, by order of the Public Utilities Commission, is held in trust for return to the customers as the Commission may determine.

OPERATIONS

To supply our customers' energy needs the Company generated or purchased 728.3 million kilowatt-hours (kWh) of electricity. Some 32.2 percent of our requirements amounting to 234.5 million kWh were obtained from

R.W. Smith
Chairman of the Board

J.H. Reynolds
President and Chief Executive Officer

Company-owned sources located on the Island and in New Brunswick. 361.3 million kWh of contract energy and 132.5 million kWh of interruptible energy were purchased from NB Power.

This use of these energy sources reflects a shift away from interruptible energy and an increased use of contract energy. Energy from the Charlottetown generating plant increased by 16 percent over that produced in 1988. This increase in generation from that facility can be explained by the fact that heavy oil prices held steady or declined slightly over the 1988–89 period, making the Charlottetown plant an economic generation source. In addition, there was a severe shortage of electric energy on the Northeast U.S./Canadian system (particularly in Quebec) in the latter part of 1989. Indeed, Maritime Electric exported off-peak energy to New Brunswick and Quebec on a number of occasions during December 1989.

In 1989, Maritime Electric again mounted an advertising campaign in print and on radio encouraging our customers to "Beat the Peak." We asked customers to reduce their demand for electricity between the "rush hours" of 4:00 p.m. and 7:00 p.m. The program succeeded and, in spite of an extremely cold December, our demand (including the required 15 percent reserve) was only half a megawatt (MW) less than our installed and contracted capacity of 137 MW. We are planning a further, more aggressive "Beat the Peak" campaign for 1990.

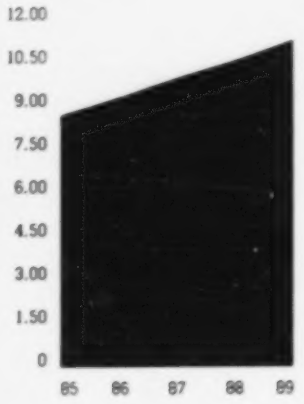
Capital expenditures for 1989 of $17.1 million included approximately $5 million for property acquisitions, compared to total capital expenditures of $11.6 million in 1988. The capital budget for 1990 is $15.5 million.

During the year, the Company installed and commissioned almost $2 million of equipment at the Charlottetown plant to neutralize and control emissions from the plant. This equipment includes a magnesium hydroxide $Mg(OH)_2$ injection system, an induced draft fan and a dust collector. This investment is tangible evidence of the Company's ongoing commitment to environmental protection.

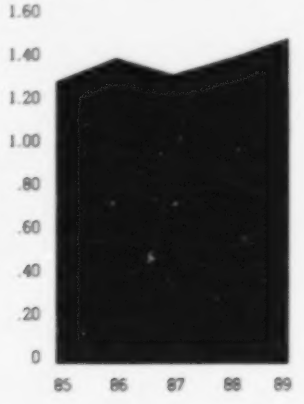
Under the pole replacement program, $2.4 million was expended in replacing 3,664 poles. The level of activity was similar to 1988. The program will continue during 1990 at a decreased level of activity to allow for closer integration of this remedial program with our normal development of the distribution system.

As part of our commitment to improved customer service, the Company has completed a new service centre outside Summerside; has acquired and is equipping a new service centre in West Royalty, Charlottetown; and has acquired and is refitting a new corporate office in downtown Charlottetown. These facilities will meet the Company's space requirements beyond the end of the century.

EQUITY PER SHARE
(in dollars)



EARNINGS PER SHARE
(in dollars)



ORGANIZATION AND STAFFING

1989 was the first full year of operations under our new organization structure. Four Vice-Presidents report to the President: Engineering and Operations, Corporate Planning, Finance and Adminis-

tration, and Customer Service and Energy Management. Also reporting to the President is the Manager, Human Resources. The structure is designed to make the most effective use of our resources in meeting our goal: satisfying our customers' needs in a cost-effective manner while fulfilling our responsibilities to shareholders.

The reorganization gives renewed focus to customer service; and a company-wide program of specialized training in customer service and customer relations has been initiated.

During 1989, we entered the second year of a two year agreement between the Company and the International Brotherhood of Electrical Workers. Negotiations toward a new agreement, effective July 1, 1990, will commence in the spring of 1990.

FIGURE 1:
Breakdown of Revenue and Costs for 1988 and 1989

$ (Millions)	1989	%	1988	%
Sales Revenue	65.7	100	59.9	100
Expenses				
Cost of Generation and Purchased Energy	33.9	51.6	29.5	49.3
Other Operating and Maintenance	12.7	19.3	12.0	20.0
Income Tax	4.5	6.9	5.0	8.4
Depreciation	4.8	7.3	4.3	7.2
Net Interest and Preferred Dividends	4.9	7.5	4.5	7.5
Common Dividends	2.7	4.1	2.6	4.3
Earnings Reinvested in the Company	2.2	3.3	2.0	3.3

FINANCIAL REVIEW

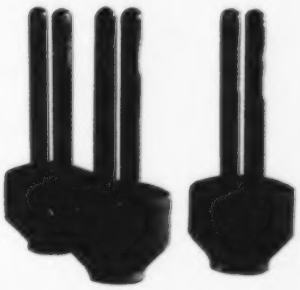
Operating revenue in 1989 amounted to $65.7 million, an increase of 9.7 percent over 1988 operating revenue. The disposition of this revenue is shown on Figure 1 below, and is illustrated by the following chart.

1989 Revenue and Costs

- 51.6% Cost of Generation and Purchased Energy
- 19.3% Other Operating and Maintenance
- 6.9% Income Tax
- 7.3% Depreciation
- 7.5% Net Interest and Preferred Dividends
- 4.1% Common Dividends
- 3.3% Earnings Reinvested in the Company

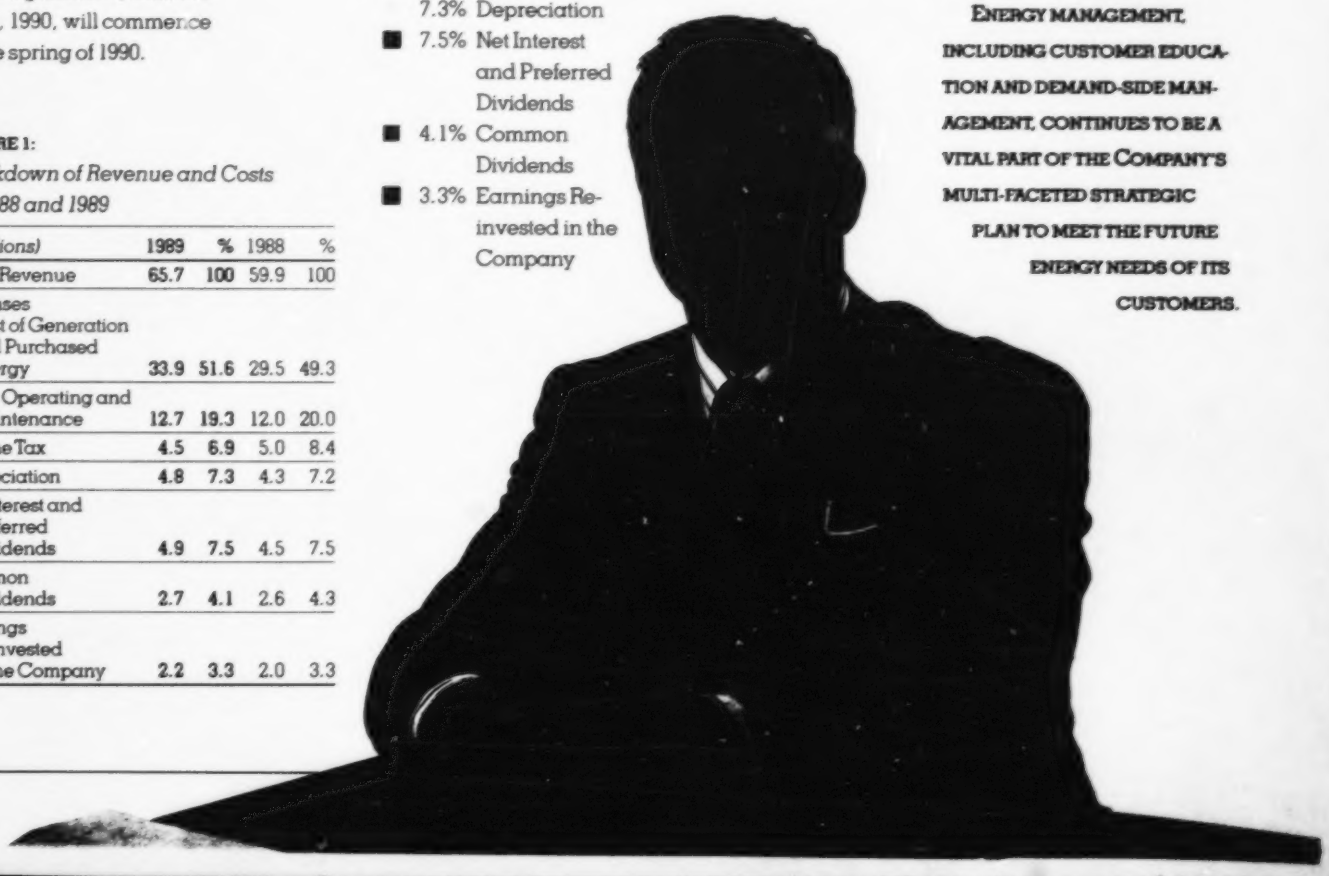
"FOR AN INVESTOR-OWNED UTILITY, THERE IS ONLY ONE REAL MEASURE AND GUARANTEE OF SUCCESS, AND THAT'S CUSTOMER SATISFACTION."

James Lea:
Vice-President
Customer Service and Energy Management



ONE PART OF 1989'S RENEWED EMPHASIS ON CUSTOMER SERVICE WAS THE INTRODUCTION OF A PILOT PROGRAM TO TEST NEW, ENERGY-EFFICIENT, FLOURESCENT LIGHT BULBS.

ENERGY MANAGEMENT, INCLUDING CUSTOMER EDUCATION AND DEMAND-SIDE MANAGEMENT, CONTINUES TO BE A VITAL PART OF THE COMPANY'S MULTI-FACETED STRATEGIC PLAN TO MEET THE FUTURE ENERGY NEEDS OF ITS CUSTOMERS.

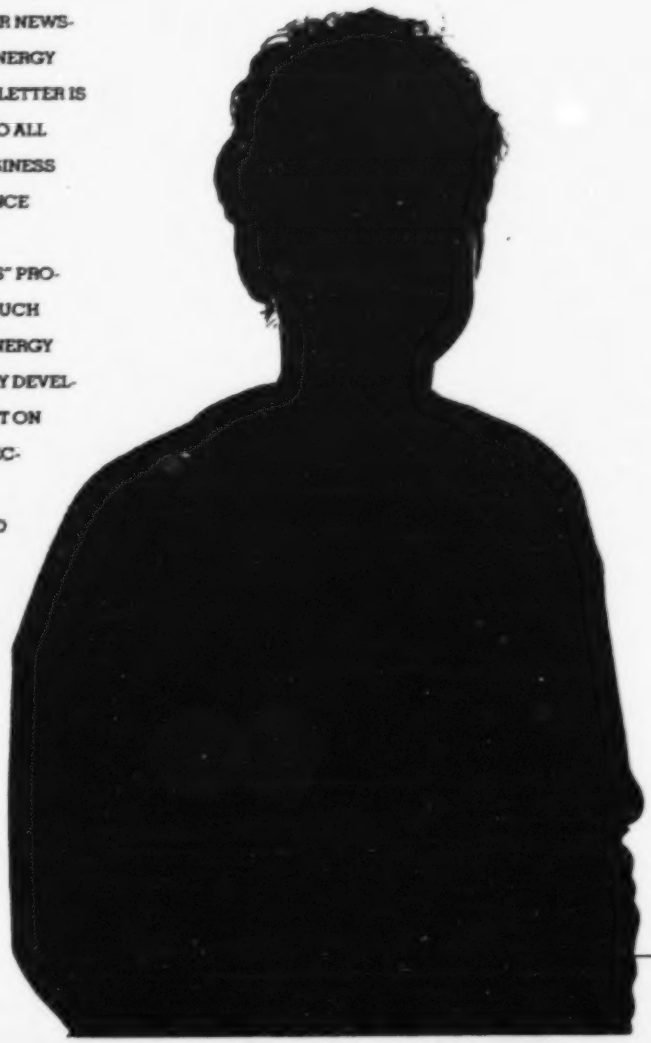


"NOW, WITH "ENERGY MATTERS," WE CAN COMMUNICATE REGULARLY WITH OUR CUSTOMERS ON SUBJECTS THAT DIRECTLY CONCERN THEM."

Sue LeBreton:
Communications and Promotions Co-Ordinator

IN 1989 MARITIME ELECTRIC BEGAN PUBLICATION OF A FOUR PAGE CUSTOMER NEWSLETTER. ENTITLED "ENERGY MATTERS," THE NEWSLETTER IS MAILED QUARTERLY TO ALL RESIDENTIAL AND BUSINESS CLIENTS ACROSS PRINCE EDWARD ISLAND.

"ENERGY MATTERS" PROVIDES A FORUM FOR SUCH DIVERSE TOPICS AS ENERGY EFFICIENCY, COMPANY DEVELOPMENTS THAT IMPACT ON CUSTOMERS, AND ELECTRICAL SAFETY. IT'S PREPARED AND EDITED BY THE COMPANY'S PUBLIC AFFAIRS SECTION, BUT IDEAS AND THEMES ARE SOLICITED FROM EVERYONE, EMPLOYEES AND CUSTOMERS ALIKE.



Net Income

Net income increased to $5.5 million from $5.3 million in 1988. These amounts represent the maximum rate of return on average common equity allowed by the Public Utilities Commission (13.75 percent).

Earnings per common share in 1989 amounted to $1.51 compared to $1.42 in 1988. This is based on the average number of common shares outstanding which amounted to 3,206,017 in 1989 compared to 3,174,291 in 1988.

1990 Financing Requirements

The Company's bank indebtedness stood at $13.4 million at year end. This indebtedness, together with the $5.6 million outstanding on the 17¼ percent 1990 First Mortgage Bonds to be redeemed in June, is planned to be refinanced in 1990. Budgeted 1990 net capital expenditures of $15.5 million will be partially financed by internally generated funds of about $9 million with the $6.5 million difference being financed externally. Total 1990 financing requirements are forecast to amount to over $25 million. Current plans anticipate that up to $20 million of this requirement will be financed by first mortgage bonds with equity financing providing part of the balance remaining. It is expected that a relatively small bank loan will be carried over into 1991.

Some of the key ratios for financial analyses are shown in the ten-year summary on page 15 and the graphs which appear throughout this message.

FIGURE 2:
Accumulated Depreciation on Replacement Costs

	1989		1988	
($'000)	Original Cost	Current Cost Basis (Indexed)	Original Cost	Current Cost Basis (Indexed)
Land, Buildings, Plant and Equipment	152,006	327,139	136,023	296,722
Less: Accumulated Depreciation	49,374	149,838	45,298	136,212
Net	102,632	177,301	90,725	160,510

Impact of Inflation

The cost of land, buildings, plant and equipment, and associated accumulated depreciation at December 31, 1989 and December 31, 1988 are shown on the basis of both historic and replacement costs. Replacement costs are estimated using various price indices and applying them to the different types of property according to age. Accumulated depreciation on replacement costs has been determined based on the results of a depreciation study, shown on page 4, Figure 2.

The effect of inflation on the cost of replacement of the assets used in a business, particularly for capital intensive industries is a concern to both businessmen and their customers. Knowledge of current and future cost levels will help the Company in planning and providing for the future in the best interests of its customers.

Provincial Regulation

The Company is regulated by the Public Utilities Commission of Prince Edward Island under the provisions of the Electric Power and Telephone Act. This regulation is with respect to rates, capital expenditures, financing and other matters. During 1989, the Company had petitions and hearings before the Commission on a variety of issues: rates for the Town of Summerside, a rate boundary study, rate design parameters, the capital budget for 1990 and confirmation of interim rates for 1989 and rates for 1990. We also appeared before the Commission for approval of a $5 million Cumulative Redeemable Preferred Share issue in June and in December on an application for the approval of a bond issue of up to $20 million. The Company has not yet marketed the bond issue.

Federal Regulation

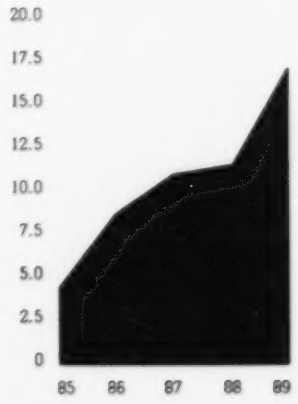
In 1989, amendments to the National Energy Board Act to allow for more flexibility in the electricity export approval process and to ensure "fair market access" for neighbouring Canadian utilities for any proposed export were considered. The Company was an active participant in the process, making representations on the proposed legislation before the legislative committee considering the amending act. The Company continued to monitor applications to the National Energy Board with respect to exports by neighbouring utilities and intervened in one of Hydro Quebec's export hearings.

Planning

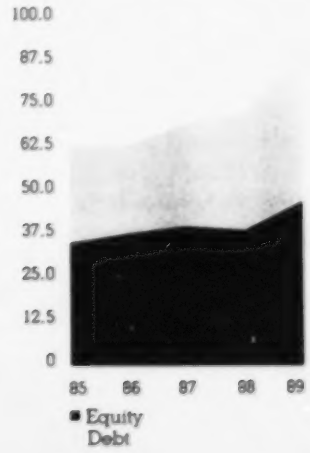
To fulfill our responsibility to plan for the future needs of our customers, the Company continues to examine all the options for generation, transmission and distribution development.

The Company signed a five-year agreement with NB Power in the fall of 1988 for capacity and energy. The agreement is flexible in as much as the Company can contract for varying quantities of capacity and energy, one independent from the other. The agreement was negotiated to provide security of supply until 1994 when a number of additional generating sources are scheduled to come on stream on the mainland. The options now being explored include coal-fired generation on the

Capital Expenditures (net)
(millions of dollars)



Year-End Capitalization
(millions of dollars)



mainland, plans for the extension of the life of the Charlottetown plant and a 15 to 25 MW topping extension to the Charlottetown plant. This last-mentioned would improve the thermal efficiency of the plant while adding 15 to 25 MW of new capacity and allowing a wood-fueled boiler to be incorporated into a cogeneration and district heating facility.

Our planning strategies for meeting the Island's electricity requirements include a commitment to demand side management. Investment to achieve the reduction of one kilowatt of demand (if that reduction can be sustained) is just as appropriate as an investment in one kilowatt of new capacity. As part of this concept, we have initiated a pilot project to allow some of our customers to test use some energy efficient lighting units.

In 1989, the Company signed an agreement with the Government of Prince Edward Island and NB Power covering the upgrading of the interconnection between Maritime Electric and NB Power. Once completed in 1991, this improvement will allow both cables to be used simultaneously and double the transfer capability of the interconnection from 100 MW to 200 MW.

During 1989, the T-2 transmission line was rebuilt from Lorne Valley to Charlottetown, a distance of 33 kilometres. The line is now operating at 69 kV, but our planning recognized the need that it be constructed and insulated to allow ready operation at 138 kV when larger load transfers are required in King's County. In order to meet that need, the Company made the additional investment.

The 1990 capital budget includes some $7.5 million to improve the transmission system by the addition of a new 138 kV circuit between Borden and Summerside with appropriate terminals and transformer capacity.

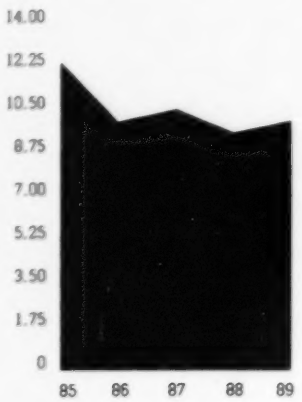
The 1990 capital budget includes a distribution system planning study. This study will serve as a framework for the development and maintenance of the distribution system, particularly as plans interface with the pole replacement program the Company initiated in 1984. The pole replacement program will be integrated into the distribution system planning process.

An important component of the planning function is the maintenance of a sound financial structure with sufficient flexibility to allow us to take advantage of opportunities as they arise.

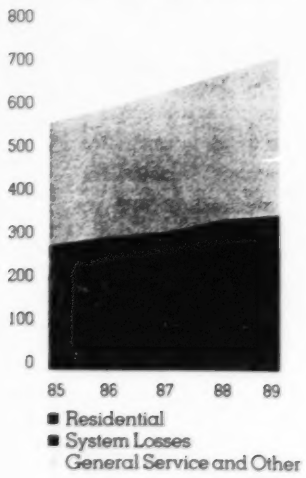
Basic to the financial efficiency and integrity of the Company are appropriate capital structure ratios, adequate interest coverage and a sound credit rating. Company officials and our financial advisors continue to remind the rating agencies of our steady performance over the past ten years.

The application which has been heard before the Public Utilities Commission in January–February 1990 is for rates to achieve a 14 percent return on average common equity, with an allowed range of 14 to 14½ percent. The application included a statement of quantitative financial objectives that the Company has

PRICE OF ELECTRICITY
(cents per kilowatt-hour)



DISTRIBUTION OF ELECTRICITY
(millions of kilowatt-hours)



set in response to current market conditions as follows:

(a) Maintain coverage on total debt interest in the range of 3.2 to 3.6 times and coverage of total debt interest and preferred dividends in the range of 2.2 to 2.6 times.

(b) Maintain a debt ratio in the range of 45–50 percent, a preferred ratio of 10–15 percent and a common equity ratio of 40–45 percent.

(c) Obtain an "A" rating on the Company's first mortgage bonds.

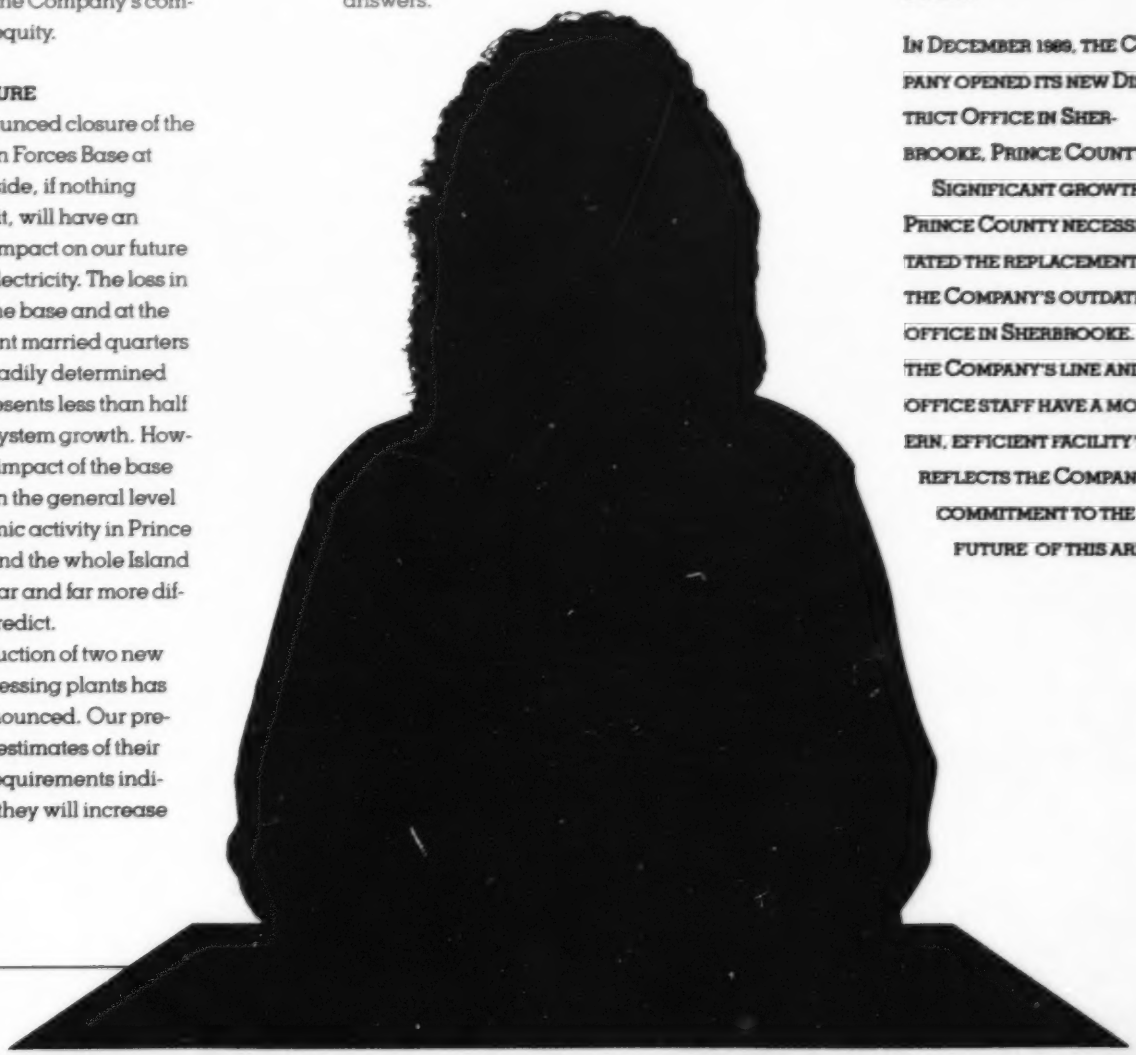
(d) Maintain the marketability of the Company's common equity.

The Future

The announced closure of the Canadian Forces Base at Summerside, if nothing replaces it, will have an adverse impact on our future sales of electricity. The loss in sales at the base and at the permanent married quarters can be readily determined and represents less than half a year's system growth. However, the impact of the base closure on the general level of economic activity in Prince County and the whole Island is less clear and far more difficult to predict.

Construction of two new food processing plants has been announced. Our preliminary estimates of their energy requirements indicate that they will increase the system interruptible load by 4–5 MW and require some 25 million kWh of energy in 1991. In subsequent years, the plants are forecast to have a total aggregate of 35 million kWh per year.

Other uncertainties include the impact of the Goods and Services Tax in 1991, such as how the GST will affect inflation and the national and provincial economies, and how customers' consumption of electricity will be affected by the seven percent surcharge on their bill. These are questions for which there are, as yet, no definitive answers.



"THE NEW FACILITIES ALLOW US TO GIVE OUR CUSTOMERS WHAT THEY EXPECT—EFFICIENT AND CONVENIENT SERVICE."

Karyn Phillips:
Rural Office Clerk—Western District

Karyn Phillips talks with Maritime Electric customer Charles Alexander at the new Sherbrooke Service Centre.

IN DECEMBER 1989, THE COMPANY OPENED ITS NEW DISTRICT OFFICE IN SHERBROOKE, PRINCE COUNTY.

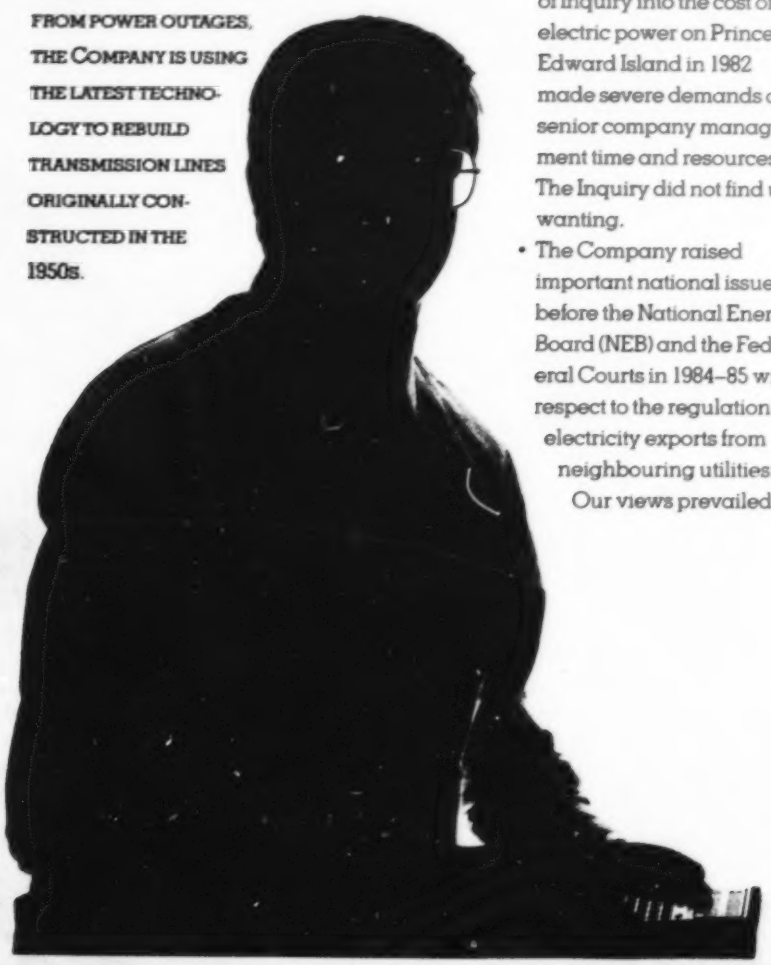
SIGNIFICANT GROWTH IN PRINCE COUNTY NECESSITATED THE REPLACEMENT OF THE COMPANY'S OUTDATED OFFICE IN SHERBROOKE. NOW THE COMPANY'S LINE AND OFFICE STAFF HAVE A MODERN, EFFICIENT FACILITY THAT REFLECTS THE COMPANY'S COMMITMENT TO THE FUTURE OF THIS AREA.

"OUR CUSTOMERS WANT THE SECURITY OF KNOWING THAT WE'RE ALWAYS WORKING TO IMPROVE SYSTEM RELIABILITY."

Fred O'Brien:
Staff Electrical Engineer

IN 1989 THE COMPANY CONTINUED ITS COMMITMENT TO IMPROVE SERVICE RELIABILITY, PARTICULARLY IN RURAL AREAS.

TO COMBAT THE INCONVENIENCE TO OUR CUSTOMERS FROM POWER OUTAGES, THE COMPANY IS USING THE LATEST TECHNOLOGY TO REBUILD TRANSMISSION LINES ORIGINALLY CONSTRUCTED IN THE 1950s.



We plan to be prepared to respond to these challenges and opportunities, just as we responded to the challenges of the eighties.

We believe that it is not inappropriate to recognize that 1989 was the fourteenth successive year of increased dividends, and in reviewing the ten-year financial summary, we should recall some of the major issues and accomplishments of the eighties:

- Zero or negative sales growth from 1980 to 1983.
- Acquisition and funding of 20 MW of capacity after government action had suddenly caused the abandonment of a nuclear entitlement agreement.
- A government Commission of Inquiry into the cost of electric power on Prince Edward Island in 1982 made severe demands on senior company management time and resources. The Inquiry did not find us wanting.
- The Company raised important national issues before the National Energy Board (NEB) and the Federal Courts in 1984–85 with respect to the regulation of electricity exports from neighbouring utilities. Our views prevailed.
- 1986–87 brought active participation before NEB generic hearings on electricity export practices.
- 1987–88 saw continuing involvement at the Federal legislation and regulations level on export issues.
- In 1987–88, the first formal advance plan hearing was held before the Public Utilities Commission.

The uncertainties of the near future and their possible impact on our business were referred to during the course of the current rate hearing before the Public Utilities Commission. If our application is approved, on average we can expect an increase of five percent over basic rates in July 1990.

We are currently planning an application to the Public Utilities Commission to be filed late in 1990 for rates in 1991.

Once again, the dedication of our employees has helped us attain our goals. The Directors extend their sincere appreciation to the employees for their fine contribution.

This discussion and analysis, together with the financial statements for 1989, are submitted on behalf of the Board of Directors.

R.W. Smith
Chairman of the Board

J.H. Reynolds
President and Chief Executive Officer

Summary of Accounting Policies

Regulation
The Company is engaged in the purchase and production of electricity in Prince Edward Island and New Brunswick and its sale in Prince Edward Island, and is regulated by the Public Utilities Commission of Prince Edward Island under The Electric Power and Telephone Act.

Fixed assets
Additions are made to fixed assets and costs are capitalized in accordance with the regulations established by the Public Utilities Commission.

The cost of additions to fixed assets represents the cost of materials, related services, direct labour, interest during construction and other applicable indirect overheads.

Interest during construction is calculated on a monthly basis at a rate equal to the rate of return on earnings base approved by the Public Utilities Commission.

Retirements from fixed assets are made to accumulated depreciation on the basis of original cost plus retirement expenses, less salvage.

Depreciation is provided for on a straight-line basis using rates which are estimated to amortize the cost of fixed assets, less salvage value, over their useful lives. These rates are periodically reviewed by the Public Utilities Commission. Depreciation on the cost of contributed assets is charged to the contributions account.

Materials and supplies
Materials and supplies are valued at average cost.

Contributions
Contributions toward the cost of construction for service connections and those arising from the purchase of lines from the government are deferred. These amounts are written-off over the lives of the assets by an annual depreciation charge.

Revenue
Revenue is recognized on billings rendered monthly to customers on a cyclical basis.

Deferred charges

Financing Costs
Costs relating to the issue of bonds and preferred shares are amortized over the estimated minimum life of the issue and those relating to the issue of common shares are amortized over 20 years.

Generation Studies
Expenses related to generation planning carried out from January 1, 1985 to August 31, 1988 are amortized over a five-year period commencing in 1989 in accordance with an order by the Public Utilities Commission.

Engineering Studies
Expenses related to engineering studies are deferred until a project is approved by the Public Utilities Commission, at which time the expenses are capitalized in fixed assets. If the studies do not lead to an approved project, the expenses are charged to operations.

Deferred energy cost adjustment
The Company's rates include an energy cost adjustment factor representing the difference between actual fuel costs and an approved base fuel cost which is recoverable from or refundable to customers based on a moving average formula. Amounts not refunded or recovered at December 31 are deferred.

Pension costs and obligations
During the year, in accordance with an order of the Public Utilities Commission, the Company retroactively changed its method of accounting for pension costs and obligations whereby pension benefits are expensed as funded, based upon actuarial determination. Previously the Company accounted for pension expenses on the basis of actuarially determined pension obligations accruing during the year. There was no impact on net income during 1988 and 1989 as a result of adopting the new accounting policy.

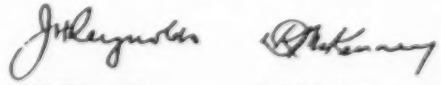
Management's Report

The accompanying financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada using procedures established by management and the framework of accounting policies outlined above. In management's opinion they fairly reflect, within reasonable limits of materiality, the Company's financial position, results of operations, and changes in financial position for the fiscal period ended December 31, 1989. Financial and other operating data contained elsewhere in this report are consistent with the financial statements.

Responsibility for the financial statements to shareholders rests with the Board of Directors.

An Audit Committee of Directors is appointed by the Board to review the financial statements in detail with management and the external auditors, and to report to the Directors prior to their approval of the financial statements for publication.

The Company's external auditors, Price Waterhouse, are appointed by the shareholders to provide an independent review of management's discharge of their responsibilities as they relate to the financial statements prepared by management. The auditors' report is set out on page 12.



J.H. Reynolds
President and Chief Executive Officer

D.K. McKenney
Vice-President, Finance and Administration

BALANCE SHEET

	December 31	
	1989	1988
ASSETS		
FIXED ASSETS (Note 1)		
Land, buildings, plant and equipment	$152,005,944	$136,023,249
Less: Accumulated depreciation	49,373,500	45,297,734
	102,632,444	90,725,515
CURRENT ASSETS		
Accounts receivable	5,381,593	4,691,967
Income taxes recoverable	—	3,831
Materials and supplies, at cost	3,276,829	3,514,462
Prepaid expenses	183,409	147,530
	8,841,831	8,357,790
DEFERRED CHARGES (Note 2)	1,095,119	1,047,017
	$112,569,394	$100,130,322
SHAREHOLDERS' EQUITY AND LIABILITIES		
SHAREHOLDERS' EQUITY (Note 3)		
Common shares	$ 5,356,280	$ 5,011,474
Retained earnings	31,184,107	28,998,710
	36,540,387	34,010,184
Preferred shares	10,300,000	5,400,000
	46,840,387	39,410,184
LONG-TERM DEBT (Note 4)	21,713,000	27,293,000
CURRENT LIABILITIES		
Bank indebtedness	13,361,393	7,898,158
Accounts payable and accrued liabilities	5,708,600	5,581,120
Cost-savings refundable to customers	784,106	278,932
Dividends payable	933,623	795,698
Deferred energy cost adjustment	845,687	3,862,861
Income taxes payable	969,744	—
Long-term debt due within one year	5,705,000	185,000
	28,308,153	18,601,769
DEFERRED CREDITS		
Deferred income taxes	8,164,357	7,806,467
Contributions	7,543,497	7,018,902
	15,707,854	14,825,369
	$112,569,394	$100,130,322

See accompanying summary of accounting policies and notes.

Approved by the Board:

Alan H. Holman
Director

David A. Scales
Director

Statement of Earnings

	Year ended December 31	
	1989	1988
Operating revenue	$65,699,333	$59,866,283
Operating expenses	46,642,480	41,518,144
Provision for depreciation	4,789,949	4,312,256
	51,432,429	45,830,400
Operating income	14,266,904	14,035,883
Other expenses		
Interest expense on long-term debt	3,297,793	2,804,860
Interest on short-term loans and other carrying charges	1,247,660	1,136,074
Allowance for funds used during construction	(282,000)	(159,000)
	4,263,453	3,781,934
Earnings before income taxes	10,003,451	10,253,949
Provision for income taxes		
Current	4,107,875	4,464,691
Deferred	357,890	514,489
	4,465,765	4,979,180
Net earnings	5,537,686	5,274,769
Preferred dividend requirements	687,317	753,781
Earnings applicable to common shares	$ 4,850,369	$ 4,520,988
Earnings per common share	$1.51	$1.42

See accompanying summary of accounting policies and notes.

Statement of Retained Earnings

	Year ended December 31	
	1989	1988
Balance at beginning of year		
As previously reported	$28,998,710	$27,171,998
Net earnings	5,537,686	5,274,769
Premium on redemption of preferred shares	—	(150,000)
Premium on purchase of common shares	(250)	—
	34,536,146	32,296,767
Dividends		
Preferred shares		
5%	30,000	30,000
Series A	76,125	86,625
Series B	342,168	342,156
Series C	—	295,000
Series D	239,024	—
Common shares	2,664,722	2,544,276
	3,352,039	3,298,057
Balance at end of year	$31,184,107	$28,998,710

See accompanying summary of accounting policies and notes.

Statement of Changes in Financial Position

	Year ended December 31	
	1989	1988
Cash from operations		
Net earnings	$ 5,537,686	$ 5,274,769
Charges to operations of depreciation, deferred income taxes and other items not involving an outlay of cash in current year	5,275,867	4,869,840
Changes in operating working capital		
Increase (decrease) in payables	(1,414,776)	2,000,146
Decrease (increase) in receivables and materials and supplies	(484,041)	220,394
Other	(67,616)	(635,478)
	8,847,120	11,729,671
Less: dividends	3,214,114	3,330,313
	5,633,006	8,399,358
Cash used in capital transactions		
Purchase of common shares	2,231	713
Expenditures for fixed assets (net)	17,123,114	11,600,127
Redemption of long-term debt	60,000	272,000
Redemption of preferred shares	100,000	3,250,000
Debt issue expenses	—	71,565
Share issue expenses	108,764	—
	17,394,109	15,194,405
Less		
Issue of preferred shares	5,000,000	—
Issue of long-term debt	—	10,000,000
Contributions for extensions	950,831	1,559,740
Subscription for common shares	347,037	434,537
	11,096,241	3,200,128
Decrease (increase) in bank indebtedness	$ (5,463,235)	$ 5,199,230

See accompanying summary of accounting policies and notes.

Auditors' Report

To the Shareholders of Maritime Electric Company, Limited

We have examined the balance sheet of Maritime Electric Company, Limited as at December 31, 1989 and 1988 and the statements of earnings, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1989 and 1988 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change in the method of accounting for pension costs and benefits as described in the summary of accounting policies.

Price Waterhouse
Chartered Accountants

Montreal, Quebec
February 16, 1990

NOTES TO FINANCIAL STATEMENTS
December 31, 1989

1. FIXED ASSETS

	1989	1988
Generating plants	$ 46,015,452	$ 43,887,307
Distribution systems	73,691,111	64,706,058
Transmission lines and substations	25,190,322	22,656,002
Other	3,690,054	3,552,820
Property under construction	3,419,005	1,221,062
	152,005,944	136,023,249
Accumulated depreciation	49,373,500	45,297,734
	$102,632,444	$ 90,725,515

Interest in the amount of $282,000 (1988 - $159,000) has been capitalized during construction.

2. DEFERRED CHARGES

	1989	1988
Financing costs	$ 241,071	$ 169,891
Generation studies	361,771	452,214
Engineering studies	492,277	424,912
	$1,095,119	$1,047,017

3. SHAREHOLDERS' EQUITY

(1) Authorized capital

(a) An unlimited number of common shares with no par value.

(b) An unlimited number of cumulative, redeemable, voting preferred shares, issuable in series with the quantities, rights, restrictions and conditions established by the Board of Directors at the time of issue.

(c) 6,000 5%, cumulative, non-voting preferred shares, redeemable at $100 per share.

(d) An unlimited number of 6%, non-cumulative, non-voting preferred shares subordinate to all other preferred shares and redeemable at $10 per share.

(2) Issued capital

	1989	1988	1989	1988
	(shares)		(amount)	
Common shares (Note 3(4)(a))	3,220,544	3,194,483	$5,356,280	$5,011,474
Voting preferred				
Series A	35,000	40,000	$ 700,000	$ 800,000
Series B	40,000	40,000	4,000,000	4,000,000
Series D	25	–	5,000,000	–
5% non-voting preferred	6,000	6,000	600,000	600,000
	81,025	86,000	$10,300,000	$5,400,000

(3) Voting preferred shares series rights

(a) Series A shares are entitled to a 10-½% dividend and are redeemable after January 31, 1984 at a premium of 6% which reduces to zero by 1992. In addition, 5,000 shares are to be redeemed at par each year to meet sinking fund requirements.

(b) Series B shares are entitled to a dividend equal to 52% of the average interest rate on specified five-year guaranteed investment certificates plus 3.25 percentage points. This dividend rate, currently 8.554% (8.554% in 1988), is adjusted at five-year intervals. Commencing in 1987 the shareholder can require an annual redemption of up to 5% of the original issue at subscription value. In 1991 and every five years thereafter, either the Company or the shareholders may require redemption, in whole or in part, of the balance of the issue at subscription value.

(c) Series D shares are entitled to a 8.25% dividend during the initial period terminating on June 30, 1994. Thereafter, the dividend rate will be determined by negotiation between the Company and the holders of preferred shares. The shares are redeemable on 30 days notice at the issue price plus accrued and unpaid dividends on or after June 30, 1994.

(4) Common shares

(a) Changes in common shares during the year were as follows:

	1989	1988
Shares outstanding at beginning of year	3,194,483	3,158,216
Issued under share purchase plans (Note 3 (5))	26,259	36,324
Purchased for cancellation (Note 3 (4)(b))	(198)	(57)
Shares outstanding at end of year	3,220,544	3,194,483

(b) During 1989, the Company purchased for cancellation 198 common shares for $2,231 cash.

(5) Share option programs

The Company has a Consumer Share Purchase Plan under which each consumer may make a quarterly subscription for up to $4,000 worth of common shares of the Company at market value and an Employee Share Purchase Plan whereby each employee may subscribe for up to 10% of his pay for the purchase of common shares of the Company at 90% of market value.

Subscriptions of $347,037 (1988 - $434,537) received under these plans resulted in the issue of 26,259 shares during 1989 (1988 - 36,324). The balance of 26,008 shares remaining in 1988 from the original 1983 allotment of 180,000 shares was issued during the year.

The Company's Board of Directors had authorized in 1989 an additional allotment of 40,000 shares under the Consumer Share Purchase Plan and 30,000 shares under the Employee Share Purchase Plan for a total of 70,000 shares. This additional allotment has been approved by the Public Utilities Commission.

4. LONG-TERM DEBT

	1989	1988
First mortgage sinking fund bonds		
17 - ¼% due 1990	$ 5,580,000	$ 5,640,000
8 - ¾% due 1993	2,550,000	2,550,000
11% due 1996	4,000,000	4,000,000
10 - ⅜% due 1997	2,800,000	2,800,000
10 - ⅜% due 1998	2,488,000	2,488,000
11.2% First mortgage bonds due 1998	10,000,000	10,000,000
	27,418,000	27,478,000
Less: Portion due within one year	5,705,000	185,000
	$21,713,000	$27,293,000

The first mortgage sinking fund bonds have a sinking fund requirement of 1% of the principal per annum. The annual requirement for sinking fund and for repayment of maturing debt for each of the next five years is: 1990 - $5,705,000; 1991 - $125,000; 1992 - $125,000; 1993 - $2,555,000; 1994 - $95,000.

Pursuant to the terms of the Deed of Trust and Mortgage, the Company has mortgaged or pledged either by way of a first and specific charge or by way of a floating charge all of its properties and assets as security for the first mortgage bonds.

5. PENSION COSTS AND OBLIGATIONS

The Company maintains a contributory defined benefit pension plan covering all of its regular employees. Based on an actuarial report, the present value of accrued pension benefits was $12,035,000 and the value of pension plan assets was $11,378,000.

In 1981, the Company adopted a revised pension plan covering all of its regular employees. All the assets of the previous plan have been absorbed into the 1981 plan.

The Company makes payments to retired employees of supplements to pensions received under the previous plan. Such payments, on the direction of the Public Utilities Commission, are expensed as paid.

TEN-YEAR SUMMARY

Statement of Income ($'000)	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980
Operating Revenue	65,089	59,866	61,111	53,994	64,119	61,848	56,985	53,743	45,651	36,261
Operating Expenses	46,842	41,518	43,209	37,037	47,277	45,648	41,360	38,460	35,614	27,512
Depreciation	4,780	4,312	4,041	3,596	3,448	3,310	2,979	2,832	2,256	1,998
Finance Charges	4,263	3,782	3,297	3,171	3,900	3,963	4,104	4,915	2,752	1,943
Provision for Income Taxes	4,488	4,979	5,443	4,875	4,460	4,092	3,990	3,608	2,474	2,267
Net Earnings	5,538	5,275	5,121	5,315	5,034	4,835	4,532	3,928	2,555	2,541
Balance Sheet Data ($'000)										
Fixed Assets	152,008	136,023	125,595	115,751	107,958	103,923	99,473	95,453	83,268	70,140
Accumulated Depreciation	49,374	45,298	41,737	38,735	35,857	32,651	29,723	27,000	24,199	22,131
Capitalisation										
Total Debt	60,779	35,376	30,847	27,140	27,493	31,315	31,531	32,642	30,981	23,829
Shareholders' Equity										
Preferred	10,300	5,400	8,500	8,600	8,700	8,800	8,900	9,000	6,100	2,200
Common	38,340	34,010	31,750	29,479	27,058	24,866	22,814	21,053	17,750	16,954
Share Data (e)										
Earnings per Common Share ($)	1.51	1.42	1.34	1.41	1.31	1.25	1.15	1.16	.77	.87
Dividends per Common Share ($)	.82	.80	.77	.72	.6733	.63	.60	.57	.47	.38
Number of Common Shares										
Outstanding at Year-End (000's)	3,221	3,194	3,158	3,121	3,096	3,072	3,042	3,042	2,700	2,700
Book Value per Common Share ($)	11.34	10.65	10.05	9.45	8.74	8.09	7.50	6.92	6.57	6.28
Market Value per Common Share (a)										
High ($)	14⅛	13¼	14½	14	10⅞	9¼	8¼	7	5¼	5⅛
Low ($)	13	11⅛	10¼	10¼	9⅛	7⅛	6⅛	4¼	4⅛	3⅛
Market Volume —										
Shares Traded (b)(000's)	213.8	254.5	276.2	348.7	440.1	179.1	176.7	302.1	112.2	448.7
Financial Ratios										
Capital Structure (%)										
Total Debt	48	47	43	42	43	48	50	52	57	55
Preferred	12	7	12	13	14	14	14	14	11	5
Common	42	46	45	45	43	38	36	34	32	40
Coverage (times)										
Total Debt Interest	3.2	3.8	3.8	3.6	3.3	3.2	3.0	2.5	2.7	3.2
Total Debt Interest and Preferred Dividends	2.5	2.6	2.6	2.4	2.2	2.2	2.1	2.0	2.0	2.7
Return Earned on Average Common Equity (%)	13.75	13.75	13.75	15.5	15.5	16.0	16.0	16.4	12.1	14.3
Regulatory Data										
Return on Average Common Equity (%)(f)	13.75	13.75	13.75	15.5	15.5	16.0	16.0	16.5	16.5	15.0
Rate Base ($'000)	88,474(d)	79,455(d)	56,531(c)(d)	50,524(c)(d)	53,698(c)(d)	55,015(c)	51,481(c)	49,943(c)	49,711(c)	47,204
Return on Rate Base (%)										
Allowed	11.34	11.34	10.35(c)	11.13-11.30(c)	11.13-11.30(c)	11.60-11.75(c)	11.60-11.75(c)	10.75-12.25(c)	10.75-12.25(c)	9.25-10.0
Earned	11.29	11.35	10.48(c)	11.29(c)	11.23(c)	10.49(c)	10.7(c)	11.58(c)	9.34(c)	9.49
Operating Data										
Sources of Energy (million kWh)										
Purchased	493.8	472.8	483.0	456.6	433.5	413.2	385.6	382.9	467.8	388.9
Company-Owned Generation	234.5	223.4	169.9	151.0	145.5	147.0	145.2	117.6	46.6	125.7
Total	728.3	696.2	652.9	607.6	579.0	560.2	530.8	510.5	514.4	514.6
Sales (million kWh)										
Residential	288.5	274.0	250.2	243.0	230.1	222.1	212.4	200.3	204.8	202.4
General Service and Other	365.2	344.7	320.6	295.6	285.0	271.7	258.0	253.2	255.9	257.4
Total	651.7	618.7	579.8	538.6	515.1	493.8	470.4	453.5	460.7	459.8
Customers (000's)										
Residential	41.2	40.2	39.4	38.5	37.7	36.8	36.0	34.9	34.3	34.3
General Service and Other	8.6	8.4	8.1	7.7	7.4	7.3	7.1	7.4	7.7	7.8
Total	49.8	48.6	47.5	46.2	45.1	44.1	43.1	42.3	42.0	42.1
Number of Employees	238	221	202	203	201	195	193	198	198	200

Notes: (a) Price quoted on The Toronto Stock Exchange (b) Combined volume of shares traded on the Toronto and Montreal stock exchanges (c) Maritime Electric, Unconsolidated 1981 to 1987
(d) Average 1985–1989 (Year-end 1980–1984) (e) Share data reflects 3 for 1 split (June 5, 1986) (f) Return allowed is imputed

Corporate Directory

Board of Directors

A.D. Cameron
Senior Consultant,
Monenco Consultants
Limited, Montreal, PQ

K.V. Cox
Chairman of the Board,
Bruncor Inc.,
Saint John, NB

B.L. de la Giroday*
Treasury Analyst,
B.C. Hydro,
Vancouver, BC

A.S. Gordon**
Consultant, Merrill Lynch
Canada Inc.,
Montreal, PQ

J.H. Harrison***
Senior Vice-President,
Investments,
Sun Life Assurance
Company of Canada,
Toronto, ONT

A.H. Holman, O.C.
Retired,
Charlottetown, PEI

A.W. Howard
Consultant,
Calgary, ALTA

W.G. Lea, Q.C.
Partner, Campbell, Lea,
Michael, McConnell &
Pigot, Charlottetown, PEI

G.A. McMurdo*
Farmer,
Kensington, PEI

M.A. Pavey
Consultant,
Beaconsfield, PQ

J. H. Reynolds
President and Chief
Executive Officer,
Maritime Electric
Company, Limited,
Charlottetown, PEI

D.A. Scales
President, Island
Fertilizers Ltd.,
Charlottetown, PEI

R.W. Smith*
Chairman of the Board,
Maritime Electric
Company, Limited,
Charlottetown, PEI

Officers

R.W. Smith
Chairman of the Board

D.A. Scales
Vice-Chairman
of the Board

J.H. Reynolds
President and Chief
Executive Officer

J.A. Lea
Vice-President,
Customer Service and
Energy Management

D.K. McKenney
Vice-President,
Finance and
Administration
and Secretary-Treasurer

P.H. Newcombe
Vice-President,
Engineering and
Operations

M.A. Pavey,
Vice-President,
Corporate Planning

Head Office

180 Kent Street,
Charlottetown, PEI
C1A 7N2
Telephone: (902) 566-1599
Fax: (902) 566-2692

Act of Incorporation

Canada Business
Corporations Act

Auditors

Price Waterhouse,
Chartered Accountants

Banker

Royal Bank of Canada

Counsel

Campbell, Lea, Michael,
McConnell & Pigot,
Charlottetown, PEI

Byers Casgrain, Montreal, PQ

Exchange Listings – Common Stock

Toronto Stock Exchange
Montreal Exchange
Ticker symbol—MEC

Transfer Agent and Registrar

Montreal Trust Company,
Charlottetown, Halifax,
Montreal, Toronto, and
Winnipeg

*Members of the
Audit Committee

**Retired from Board
October 11, 1989

***Joined Board
October 11, 1989

Photography Barrett & Mackay